

system is not in the best interests of the City, the City will deliver at no cost to the beneficial owners of the Bonds or their nominees Bonds in registered certificate form, in the denomination of \$5,000 or any integral multiple thereof within a maturity. Thereafter, the principal of the Bonds will be payable upon due presentment and surrender thereof at the principal office of the Bond Registrar. Interest on the Bonds will be payable by check or draft mailed or by wire transfer (wire transfer will be made only if so requested in writing and if the registered owner owns at least \$1,000,000 par value of the Bonds), to the persons in whose names such Bonds are registered, at the address appearing upon the registration books on the 15th day of the month preceding an interest payment date, and the Bonds will be transferable as provided in the Bond Ordinance.

THE DEPARTMENT

Introduction

The Department is a municipally-owned electric utility. In 1905, the City began providing its residents with electricity generated by the Cedar Falls Hydroelectric Plant, which was the first municipally-owned hydroelectric facility in the nation. By 1910, operational responsibility for the City's electric system had been assigned to a separate lighting department, referred to herein as the "Department." In 1951, the Department purchased from Puget Sound Power and Light Company certain generation, transmission and distribution facilities serving the City's residents. The Department has operated without competition in its service area since the 1951 purchase. See "Customers, Energy Sales and Peak Loads—Service Area" for a description of the Department's service area.

The Light System currently consists of seven hydroelectric generating plants (with an aggregate one-hour peak capability of approximately 1,800 MW), approximately 656 miles of transmission lines (through which electricity is wheeled to and between the Department's various substations), over 2,400 miles of distribution lines (through which electricity is delivered from such substations to customers), 14 major substations, and two service centers. See "City Light System" and "Power Resources" for a discussion of the Department's existing facilities and "Capital Improvement and Conservation Implementation Programs" for a discussion of the Department's proposed capital projects. The Light System is interconnected with transmission lines owned by the Bonneville Power Administration ("Bonneville"). See "Power Resources—Transmission" for a discussion of Bonneville's transmission system.

Management

The Department is a department of the City and is subject to ordinances and resolutions adopted by the City Council and approved by the Mayor. The Mayor and City Council approve the Department's budget, set rates and approve financing and bond issuance, along with other functions outlined in the City Charter. The Department is under the direction of a superintendent, who is appointed by the Mayor and confirmed by the City Council. Currently the Department is headed by an acting superintendent on an interim basis. A process to select a permanent superintendent is in progress and is expected to be completed within the next twelve months.

In October 2002, a panel appointed by the Mayor recommended the establishment of an advisory board consisting of individuals with experience in the utility industry to provide advice to the Mayor and the City Council on policy and management issues facing the Department. In January 2003, the City Council passed an ordinance calling for the appointment of a six-member City Light Advisory Board. The Mayor and the City Council each designated three individuals to serve on the Board in March 2003, and the Board held its first meeting the following month. The responsibilities of the Board are purely advisory.

The Department is organized into four main operating branches (Generation, Distribution, Power Management, and Customer Services) which are headed by Deputy Superintendents who report directly to the Superintendent. A Deputy Superintendent for Finance and Administration, also reporting to the Superintendent, has responsibility for the Department's major administrative functions, including Finance, Information Technology and Facilities. Division Directors responsible for the Human Resources Division, Environment and Safety Division, Strategic Planning Office, and External Affairs Office also report directly to the Superintendent.

Brief descriptions of the backgrounds of certain key officials of the Department are provided below:

James P. Ritch, Acting Superintendent, was appointed to his current position in April 2003. Prior to his appointment, Mr. Ritch had served as Deputy Superintendent for Finance and Administration since 1994. Mr. Ritch has held various other positions in City government, including Director of the Office of Management and Budget and Director of the Department of Administrative Services. Mr. Ritch also was the Vice President of Human Resources for Egghead Software. Mr. Ritch received Bachelor of Arts and Master of Arts degrees in economics from the University of Washington.

Jesse A. Krail, P.E., Deputy Superintendent, Distribution, was appointed to his current position in 1996. Mr. Krail is responsible for management of the Distribution Branch, which delivers power and electrical services, including transmission, substations, feeders, and meters, to customers. Mr. Krail has extensive experience in public works and a broad management, engineering and customer service background with large public agencies, including the King County Department of Public Works/Transportation and the Seattle Engineering Department. Mr. Krail holds a Bachelor of Science degree in electrical engineering from Union College, New York. He is a Licensed Civil Engineer in the State of Washington.

Dana L. Backiel, Deputy Superintendent, Generation, was appointed to her current position in 1998. From her appointment to Chief Engineer in 1996 until her present appointment, Ms. Backiel managed all in-house engineering service functions. Previously, Ms. Backiel held the position of Power Stations Director and served as Acting North Electric Services Director. Ms. Backiel obtained her bachelor's degree in electrical engineering from Case Institute of Technology (Case/Western Reserve University) in Cleveland, Ohio.

Carol K. Everson, Acting Deputy Superintendent, Finance and Administration, was appointed to the position of chief financial officer for the Department in April 2003. Ms. Everson has worked for the Department since 1985 as an economist, budget manager, rates manager, and, most recently, as Director of Finance. Ms. Everson received a Bachelor of Arts degree from Vassar College and master's and doctoral degrees in economics from the University of Toronto.

Joan Walters, Deputy Superintendent, Customer Services, was appointed to her current position in January 2002. Immediately prior to her appointment, Ms. Walters served as Budget Director for the City. During the 1990s, Ms. Walters held a number of positions with the State of Illinois, including Director of the Bureau of the Budget and Director of the Department of Public Aid. Ms. Walters holds a Bachelor of Arts degree in science from Governors State University in Illinois.

Mike Sinowitz, Deputy Superintendent, Power Management, served as Director of the City Light Power Control Center from June 1999 until his appointment to his current position in February 2002. Mr. Sinowitz joined the Department in 1987 as Manager of Generation, Transmission and Scheduling Dispatch at the System Control Center. He has over 30 years of experience in the utility industry, including positions with Pacific Gas & Electric, San Diego Gas & Electric and the Arabian-American Oil Company. Mr. Sinowitz holds a Bachelor of Science degree in electrical engineering from the University of California at San Diego.

Employee Relations

As of March 31, 2003, the Department had 1,618 full-time equivalent employees, almost all of whom are members of the City's Employee Retirement System. The Retirement System requires the Department, like all other City departments, to make contributions equal to an actuarially determined percentage of covered payrolls. See "The City of Seattle—Pension System."

State law requires municipal agencies to bargain collectively with formally recognized collective bargaining units. Currently, 14 union locals represent approximately 80 percent of the Department's regular full-time employees. The collective bargaining agreements between each of these unions and the Department will expire either on December 31, 2004, or on January 22, 2005. There have been no strikes during the past 20 years, and the Department considers its employee relations to be satisfactory. See "The City of Seattle—Labor Relations."

Outstanding Debt and Debt Service Requirements

As of June 30, 2003, there were outstanding \$1,309,961,000 in senior lien City of Seattle Municipal Light and Power Revenue Bonds (the "Parity Bonds"), \$98,355,000 in junior lien City of Seattle Municipal Light and Power Adjustable Rate Revenue Bonds (the "Subordinate Lien Bonds") and \$125,000,000 in 2002 Notes, due November 21, 2003, which are subordinate to the Parity Bonds and the Subordinate Lien Bonds. In addition, the City Council by ordinance in May 2003 authorized the Department to borrow up to \$50,000,000 from the City's Cash Pool through August 31, 2003, which was repaid in full as of July 7, 2003. The Department also is authorized to borrow up to \$100 million from the Cash Pool from October 31, 2003, through December 1, 2004.

Principal of and interest on the Parity Bonds, Subordinate Lien Bonds, Cash Pool loan, and 2002 Notes are payable from the gross revenues of the Light System, after payment of reasonable charges for maintenance and operation of the Light System. Maintenance and operation charges include the unconditional obligation to make payments under certain power purchase contracts.

Principal and interest payments due on the Department's outstanding Parity Bonds and Subordinate Lien Bonds are shown in the following table, which has been adjusted to show the estimated effects of the Refunding Plan. In addition to the amounts shown in the table, in 2003 the Department will pay \$125,000,000 in principal and \$3,125,000 in interest on the 2002 Notes.

DEBT SERVICE REQUIREMENTS

	Parity Bonds ⁽¹⁾			Subordinate Lien Bonds			All Bonds
Year	Principal	Interest	Total	Principal	Interest	Total	Total Debt Service
2003	\$ 37,030,000	\$ 68,689,316	105,719,316	\$ 3,585,000	\$ 1,719,331	\$ 5,304,331	\$ 111,023,647
2004	49,705,000	73,667,836	123,372,836	4,115,000	2,831,925	6,946,925	130,319,761
2005	52,781,000	71,551,004	124,332,004	4,445,000	3,850,608	8,295,608	132,627,612
2006	56,225,000	69,253,098	125,478,098	4,775,000	3,703,927	8,478,927	133,957,025
2007	58,945,000	66,524,335	125,469,335	5,305,000	3,572,170	8,877,170	134,346,505
2008	62,055,000	63,416,923	125,471,923	5,840,000	3,342,551	9,182,551	134,654,474
2009	65,365,000	60,115,898	125,480,898	6,270,000	3,075,680	9,345,680	134,826,578
2010	68,845,000	56,632,659	125,477,659	6,705,000	2,771,929	9,476,929	134,954,588
2011	64,310,000	53,223,983	117,533,983	7,345,000	2,722,544	10,067,544	127,601,527
2012	64,615,000	49,740,858	114,355,858	7,785,000	2,604,703	10,389,703	124,745,561
2013	67,410,000	46,150,081	113,560,081	8,425,000	2,262,284	10,687,284	124,247,365
2014	67,910,000	42,488,431	110,398,431	8,865,000	1,799,802	10,664,802	121,063,233
2015	68,380,000	38,796,188	107,176,188	9,410,000	1,331,760	10,741,760	117,917,948
2016	69,110,000	35,036,006	104,146,006	7,755,000	786,304	8,541,304	112,687,310
2017	69,230,000	31,253,800	100,483,800	2,600,000	518,751	3,118,751	103,602,551
2018	68,360,000	27,833,613	96,193,613	2,750,000	369,051	3,119,051	99,312,664
2019	65,395,000	24,163,725	89,558,725	1,300,000	207,744	1,507,744	91,066,469
2020	63,385,000	20,637,730	84,022,730	1,355,000	128,858	1,483,858	85,506,588
2021	61,175,000	17,288,663	78,463,663	1,410,000	43,590	1,453,590	79,917,253
2022	60,055,000	13,986,566	74,041,566				74,041,566
2023	59,805,000	10,747,524	70,552,524				70,552,524
2024	60,750,000	7,521,031	68,271,031				68,271,031
2025	44,480,000	4,434,148	48,914,148				48,914,148
2026	38,585,000	2,104,581	40,689,581				40,689,581
2027	8,875,000	909,750	9,784,750				9,784,750
2028	9,320,000	466,000	9,786,000				9,786,000
Total	<u>\$ 1,462,101,000</u>	<u>\$ 956,633,743</u>	<u>\$ 2,418,734,743</u>	<u>\$ 100,040,000</u>	<u>\$ 37,643,512</u>	<u>\$ 137,683,512</u>	<u>\$ 2,556,418,255</u>

(1) Reflects actual results of the sale of the Bonds.

City Light System

Power Resources. The Department owns and operates three major hydroelectric generating plants on the Skagit River, approximately 80 miles northeast of Seattle, and the Boundary Hydroelectric Plant (the “Boundary Project”) on the Pend Oreille River, approximately 250 miles east of Seattle. In addition, the Department owns three smaller hydroelectric plants in western Washington. The Department sold its eight percent share of the coal-fired Centralia Steam Plant to TransAlta Corporation in May 2000.

In addition to these resources, the Department’s power is supplied through contracts with Bonneville, two public utility districts and three Columbia Basin irrigation districts. Additional contracts are in place with King County, the Province of British Columbia, the City of Klamath Falls, Oregon, three Idaho irrigation districts, and one Oregon irrigation district. A long-term contract for the purchase of power from a wind-powered generation project in the Northwest region has been signed with PacifiCorp Power Marketing, Inc. (“PPM”).

More detailed information on the Department’s power resources is provided under “Power Resources” below.

Transmission Facilities. The Department operates a system of 656 miles of transmission facilities that follow several routes. Power from the Skagit River plants is transmitted over lines owned by the Department. The Department also uses the facilities of other agencies, principally Bonneville, to transmit power from other generating plants from which the Department receives power, including the Boundary Project. The Department’s transmission facilities are connected to Bonneville’s transmission grid. The Department also has acquired ownership rights to 160 MW of capacity over the AC Intertie, which connects the Pacific Northwest power grid with the Southwest region. See “Power Resources—Transmission.”

Distribution Facilities. There are 14 major substations in the Light System. Service in the City’s downtown business area and other areas of high load density is provided through underground network systems.

General Plant. The Department’s general plant facilities include two service centers that serve as headquarters for construction and maintenance activities, the System Control Center, communication facilities, transportation equipment, and office equipment, including data processing equipment. The System Control Center, completed in 1995, houses an advanced energy management system. The Department’s central administrative offices are located in Key Tower, a downtown Seattle office building owned by the City.

Taxation and Intergovernmental Payments

The Department pays a utility tax to the City equal to six percent of Gross Revenues from sales within the State. The proceeds of this tax are deposited into the City’s General Fund. The City Charter does not permit the Department to pay taxes to the City’s General Fund “until ample provision has been made for the servicing of the debts and obligations of the utility and for necessary betterments and replacements for the current year.” A State public utility tax is paid at a rate of 3.873 percent of Gross Revenues from sales within the State, less certain adjustments.

Certain contractual payments are made to Pend Oreille and Whatcom Counties, Washington, for services rendered. Under the terms of franchise agreements signed in 1998 and 1999, the Department makes monthly payments to the cities of Shoreline, Burien, Lake Forest Park, and SeaTac in amounts equal to six percent of the revenue attributable to the energy component of rates charged to customers residing within those cities. In April 2003, the Department signed a franchise agreement with the City of Tukwila that requires the Department to pay the City of Tukwila monthly amounts equal to four percent of the revenue billed to customers in Tukwila. See “The Department—Retail Rates.”

Retail Rates

Rate Setting. The City Council has exclusive jurisdiction with respect to establishing and revising the Department’s retail rates. State law requires that rates must be fair, nondiscriminatory and fixed to produce revenue that is adequate to pay operation and maintenance expenses of the Department and to meet all debt service requirements payable from such revenue. In its retail rate-setting capacity, the City Council is not

subject to control by the Washington Utilities and Transportation Commission, but it is subject to certain rate-making provisions of the Public Utility Regulatory Policies Act of 1978. The Department never has been cited for failing to comply with such act, and believes that it is operating in compliance with the act's requirements.

Since 1980 the City Council has conducted comprehensive reviews of the Department's rate levels and rate structure at intervals of two or three years. In the course of its rate reviews, the City Council holds public meetings to consider the Department's proposed budget, construction plan, load forecast, and resource plans. Based on these planning documents, as approved by the City Council, the Department's staff estimates the Department's revenue requirements and develops a rate proposal that will produce the required amount of revenue and that allocates the revenue requirement among the various rate classes in accordance with City policy. The City Council holds public meetings to introduce and explain the proposals to the public and to accept public input. The City Council makes final decisions through passage of a rate ordinance.

Rate Changes: 1990-1999. From 1990 through 1999, the City's periodic rate reviews resulted in the following changes in average rates for the system as a whole:

SUMMARY OF RATE CHANGES 1990-1999

<u>Effective Date</u>	<u>Percentage Change</u>
January 1, 1990	(2.4)%
May 1, 1993	12.6
March 1, 1995	5.7
March 1, 1996	5.3
March 6, 1997	(0.4)
March 1, 1998	(0.6)
December 24, 1999	3.2

In addition to these changes, the City Council imposed three temporary surcharges ranging from 4.1 percent to 10.0 percent between 1992 and 1995 to offset the impact of poor water conditions on power costs.

The most recent comprehensive rate review took place in 1999 and culminated in the passage of an ordinance in November 1999 that provided for an average increase of 3.2 percent, effective December 24, 1999. Pursuant to City policy, rates for low-income residential customers were set at levels 50 percent below rates in the standard residential classes. The ordinance provided for a further increase averaging 3.0 percent, effective March 1, 2002.

Rate Changes: 2000-2003. In 2000 and the first nine months of 2001, the Department was required to purchase large amounts of power in the wholesale market as a result of its 1996 decision to limit purchases of power from Bonneville (see "Power Resources—Purchased Power Arrangements"), the sale of the Centralia Steam Plant in May 2000 and unusually poor water conditions in the water year beginning October 1, 2000. Beginning in May 2000, largely as a result of supply constraints and the repercussions of restructuring efforts in California, wholesale market prices increased to unprecedented levels. As a result, the Department incurred power expenses in 2000 and 2001 that in total exceeded its budgeted estimates by almost \$600 million. See "Change in the Electric Utility Industry," "Recent Developments Affecting the Department" and "Historical and Projected Operating Results." In response to these developments, the City increased rates four times in 2001:

- (i) Effective January 1, 2001, all energy charges were increased by 0.4 cents per kWh, with the exception of rates for low-income customers, which were increased by 0.2 cents per kWh. On the average, rates increased by 9.8 percent.
- (ii) Effective March 1, 2001, winter energy charges for all classes except the low-income classes were increased by 0.4 cents per kWh and the distinction between summer rates and winter rates was eliminated. Rates for low-income customers remained unchanged. With rates for non-low-income

customers set at the higher winter levels in all months of the year, average rates increased by 18.0 percent.

- (iii) Effective July 1, 2001, energy charges for all classes except the low-income classes were increased by 0.49 cents per kWh, which represented an increase of 9.3 percent in average rates. Average rates for low-income customers were not increased, but effective October 1, 2001, the distinction between summer and winter rates for low-income customers was eliminated, and rates were set at the average of winter and summer rates.
- (iv) Effective October 1, 2001, all energy charges were increased by 0.6 cents per kWh, or 10.3 percent, with the exception of energy charges for the low-income rate classes, which received an increase of 0.3 cents per kWh. This increase passed through to customers the financial effect of increases in rates charged by Bonneville for transmission services and power purchases. Pass-through of the October 1, 2001, transmission and power rate increases had been mandated by the ordinances implementing the December 24, 1999, rate increases and the July 1, 2001, power cost adjustment, respectively. See “Power Resources—Purchased Power Arrangements.”

The last of the rate ordinances in 2001 also required that the effect of future increases or decreases in Bonneville rates be passed through to customer classes through adjustments to their energy charges. Pursuant to this provision, energy charges for all rate classes were reduced by 0.07 cents per kWh, effective April 1, 2002, except for the low-income rate classes, which were reduced by 0.04 cents per kWh. This resulted in an average decrease of 1.1 percent. Further rate adjustments by Bonneville were passed through to City Light customers on April 1, 2003, through an increase of 0.08 cents per kWh in energy charges for all classes except the low-income classes, which received an increase of 0.04 cents per kWh. The average rate increase on April 1, 2003, was 1.2 percent.

In addition to the four power cost adjustments enacted in 2001, rates for Medium and Large General Service customers in the downtown network were increased by 4.1 percent and 3.8 percent respectively, effective March 1, 2002, as provided for in the November 1999 rate ordinance. Fees for rental of streetlights, poles, ducts, and vaults also increased on that date. These increases resulted in an average increase of 0.5 percent for the system as a whole. The ordinance enacting the power cost adjustment effective July 1, 2001, eliminated the increases for the other rate classes that were to have taken effect on March 1, 2002, under the terms of the November 1999 ordinance.

Under the terms of the April 2003 franchise agreement between the City of Tukwila and the Department, customers in the City of Tukwila received rate increases averaging 4.7 percent to 5.6 percent, depending on the rate class, effective May 1, 2003. See “The Department—Rates Outside the City of Seattle.”

SUMMARY OF RATE CHANGES SINCE JANUARY 1, 2000

<u>Effective Date</u>	<u>Percentage Change</u>
January 1, 2001	9.8%
March 1, 2001	18.0
July 1, 2001	9.3
October 1, 2001	10.3
March 1, 2002	0.5
April 1, 2002	(1.1)
April 1, 2003	1.2
May 1, 2003	0.2

The net effect of the four power cost adjustments in 2001, the March 1, 2002, increase in network rates, the pass-through of the Bonneville rate adjustments on April 1, 2002, and April 1, 2003, and the increase in Tukwila rates has been to increase average rates for the system as a whole by 57 percent. Because low-income rates were exempted from the power cost adjustments effective March 1, 2001, and July 1, 2001, rates for low-income customers increased by about 20 percent.

Under the terms of the financial policies adopted by the City Council for the Department in December 2001, current rates will remain in effect until the Department repays all short-term debt obligations, including the 2002 Notes and the amounts borrowed from the Cash Pool, and accumulates an operating account cash balance of \$30 million, unless rates are increased by City Council action or adjusted to pass through further changes in Bonneville power rates. These conditions are expected to be met in mid-2004. At that point rates can be set in accordance with the rate-setting guidelines in the City Council-adopted financial policies, which give greater recognition to the higher risks that the Department faces in the current utility environment. The Department's financial forecast assumes that new rates will take effect on January 1, 2005. Financial policies adopted by the City Council are subject to change by the City Council. See "The Department—Financial Policies."

In 2002, the Department's average rate for residential service was 6.90 cents per kWh. The Department's commercial and industrial rates averaged 6.20 cents and 5.28 cents per kWh, respectively. See the table titled "Average Rates and Monthly Bills" for average rates and bills paid by the various customer classes. With the Department's recent power cost adjustments taken into account, the Department's current average rates are below the national average. See the table titled "Annual Bill Comparisons with Other Puget Sound Utilities" for a comparison of annual amounts paid by the Department's customers and the customers of neighboring utilities.

Rates Outside the City of Seattle. In 1998 and 1999, the cities of Shoreline, Lake Forest Park, SeaTac, and Burien granted franchises to the Department which recognized the right of the Department to set higher rates for customers located in those cities than the rates charged to Seattle customers. However, the differential between rates in Seattle and rates outside Seattle was limited to eight percent of the energy portion of rates, plus amounts required to recover the cost of service levels requested by any of the suburban cities that exceeded standard service levels provided by the Department. The rate ordinance that took effect in 1999 set rates for customers in these cities and in unincorporated King County at the maximum level permitted under the franchises. The franchise agreement then in effect between the Department and the City of Tukwila required the Department to charge the same rates in Tukwila as in Seattle. In April 2003, Tukwila granted a new franchise which contained rate provisions similar to those in the franchises with the other suburban cities. Rates in Tukwila were increased effective May 1, 2003.

Market-Indexed Rates for High Demand Customers. Since 1996, the Department has offered market-indexed rate schedules ("Market-Indexed Schedules") to the eight customers in its High Demand General Service classes. Currently no customers are served under the Market-Indexed Schedules.

Special Rates for New Large Loads. The City Council passed an ordinance in 2000 that created a new customer class for New Large Loads. A New Large Load is defined in the ordinance as any service fed from an expanded or a new installation equal to or greater than 12.5 megavolt-amperes ("MVA") of energized capacity installed within any consecutive five-year period after August 31, 2000. The ordinance provides that New Large Load customers will be charged for service either under the Department's Market-Indexed Schedule (see "The Department—Retail Rates—Market-Indexed Rates for High Demand Customers") or on the basis of a negotiated, customized delivery and payment package which would include one of a number of options for acquiring and paying for energy. New Large Loads will also pay a retail service charge to the Department for delivery of power to the customer's premises. Under either payment option, each New Large Load customer is responsible for installation costs and a fixed charge per MW of capacity to cover the cost of providing feeder and substation capacity. Currently no customers are being served as New Large Loads.

Interruptible Rates for High Demand Customers. In 2001, the City Council passed an ordinance creating a new rate class for High Demand General Service customers that sign contracts with the Department for interruptible service. Under the terms of such contracts, the Department has the right to interrupt service to such customers when the wholesale market price of energy exceeds a "trigger price," which has been set at \$55 per MWh through the end of 2003 and may be adjusted by the Department after that date. Through December 31, 2003, rates for High Demand customers choosing to be served on this basis have been set at levels approximately 30 percent below the rates for standard High Demand customers. Effective January 1, 2004, rates for this class will be the standard rates for customers in the High Demand class in the City of Seattle, plus 0.725 cents per kWh. This additional charge will remain in effect until the customer has

consumed five times the amount of energy actually consumed in calendar year 2000. One customer has signed a contract with the Department for interruptible service.

Voluntary Green Power Program. Pursuant to State law, the Department provides residential customers the option of paying additional monthly amounts of \$3, \$7 or \$10 to fund renewable resources. Non-residential customers also can elect to make voluntary payments in amounts ranging from \$8 to \$150 per month. The proceeds of these voluntary payments will be used by the Department to fund the acquisition of energy from renewable resources, such as solar, wind, fuel cells, and landfill gas. See “Power Resources—Purchased Power Arrangements—Other Renewable Resources.” As of January 1, 2003, 3,470 customers had elected to participate in the program.

AVERAGE RATES AND MONTHLY BILLS

	Average Revenue in Cents per kWh				Average Monthly Bills			
	City Standard	City Network	Suburban ⁽¹⁾	City of Tukwila	City Standard	City Network	Suburban ⁽¹⁾	City of Tukwila
Residential								
500 kWh per month	5.9		6.0	6.2	\$29		\$30	\$31
1,000 kWh per month	7.3	(2)	7.4	7.6	73	(2)	74	76
2,000 kWh per month	8.0		8.1	8.3	159		161	166
Small General Service								
10,000 kWh per month (40kW)	6.1	(2)	6.2	6.4	\$613	(2)	\$624	\$643
Medium General Service								
20,000 kWh per month (60kW)	6.2	6.9	6.4	6.6	\$1,250	\$1,381	\$1,272	\$1,312
200,000 kWh per month (500kW)	6.2	6.8	6.3	6.5	12,395	13,655	12,615	13,015
Large General Service								
400,000 kWh per month (1,000kW)	5.8	6.3	5.9	6.1	\$23,260	\$25,109	\$23,619	\$24,327
1,800,000 kWh per month (5,000kW)	5.8	6.3	5.9	6.1	104,868	113,408	106,486	109,782
High Demand General Service								
6,000,000 kWh per month (20,000kW)	5.6	(3)	(3)	5.9	\$335,642	(3)	(3)	\$356,529
18,000,000 kWh per month (60,000kW)	5.6			5.9	1,006,925			1,069,587

(1) All jurisdictions outside the City of Seattle, except the City of Tukwila.

(2) There are no separate rate schedules for Residential and Small General Service customers located within the network.

(3) All High Demand General Service customers are located in Seattle or Tukwila.

ANNUAL BILL COMPARISONS WITH OTHER PUGET SOUND UTILITIES
(BASED ON RATES IN EFFECT ON APRIL 1, 2003)

Monthly Use		Seattle City Light				Puget Sound Energy (4)	Snohomish County PUD	Tacoma Power
kWh	kW	City Standard	City Network	Suburban ⁽¹⁾	City of Tukwila	City of Bellevue	City of Everett	City of Tacoma
Residential								
100		\$87		\$88	\$91	\$128	\$162	\$135
500		352	(2)	358	372	364	493	411
1,000		872		884	911	742	985	757
3,000		2,950		2,986	3,069	2,334	2,956	2,138
Small General Service								
300	1	\$221		\$225	\$231	\$427	\$377	\$325
3,000	10	2,207	(2)	2,246	2,315	2,727	2,790	2,276
12,000	40	8,827		8,986	9,259	10,394	10,831	8,782
Medium General Service								
150,000	500	\$113,100	\$125,280	\$115,080	\$118,680	\$131,604	\$121,546	\$90,425
200,000	500	148,740	163,860	151,380	156,180	162,886	156,721	109,663
360,000	900	267,732	294,948	272,484	281,124	292,901	278,359	196,952
Large General Service								
300,000	1,000	\$210,665	\$228,281	\$213,662	\$220,142	\$228,586	\$219,826	\$180,299
1,000,000	5,000	710,154	778,966	720,949	742,549	864,986	790,647	706,908
2,500,000	7,500	1,751,568	1,893,955	1,776,513	1,830,513	1,831,966	1,802,939	1,444,842
High Demand General Service								
6,000,000	20,000	\$4,027,700			\$4,278,350	\$3,609,265	\$4,396,524	\$3,595,488
18,000,000	60,000	12,083,101	(3)	(3)	12,835,049	10,827,794	13,189,572	10,785,360
24,000,000	60,000	16,018,024			17,022,972	13,734,515	16,891,380	13,093,896
Last Rate Change		4/01/03	4/01/03	4/01/03	5/01/03	2/15/03	10/01/02	3/31/03

(1) All jurisdictions outside the City of Seattle, except the City of Tukwila.

(2) There are no separate rate schedules for Residential and Small General Service customers located within the network.

(3) All High Demand General Service customers are located in Seattle or Tukwila.

(4) For Puget Sound Energy, Large General Service is Primary General Service and High Demand General Service is High Voltage General Service.

Billing and Collection Processes

The Department currently bills its residential customers and some small commercial customers bi-monthly and all other customers monthly. Such bills are due within 15 days of receipt. The Department has established various payment programs for its customers, including a levelized monthly payment program and an electronic funds transfer program. Accounts receivable write-offs by the Department in 2001 and 2002 were less than one percent of energy sales revenue. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department, subject to statutory prohibitions against disconnecting customers in winter months.

Financial Policies

The rate covenants in the Department's Parity Bond ordinances do not require the Department to set rates that achieve a specific level of debt service coverage on Parity Bonds. However, the City Council has adopted by resolution financial policies to be used by the Department in setting rates. From 1990 through December 2001, these policies required that rates be set at levels that would be expected to provide debt service coverage of 1.80 times debt service on Parity Bonds. In December 2001 the City Council adopted by resolution new financial policies which require that rates be set at levels that will provide 95 percent confidence that net revenue available to fund capital requirements will be greater than zero, after payment of all operating and maintenance expenses, debt service, City taxes, deposits to the Parity Bond Reserve Fund, and other current obligations. Coverage is expected to exceed 2.0 times debt service on Parity Bonds under the new rate-setting policies. The new policies additionally require that, in the first two years in which they are in effect, rates be set at levels which will allow the accumulation of a \$25 million contingency reserve account. The new rate-setting policies will take effect after the Department has retired all short-term debt obligations, including the 2002 Notes and the amounts borrowed from the Cash Pool, and has accumulated an operating cash balance of \$30 million. Rates will remain at current levels until the new policies take effect, unless increased by the City Council or otherwise changed to pass through increases or decreases in Bonneville rates. See "Power Resources—Purchased Power Arrangements." The Department expects that the conditions which will allow the new financial policies to take effect will be met in mid-2004. See "Historical and Projected Operating Results." The Department's financial policies are subject to change by the City Council.

CUSTOMERS, ENERGY SALES AND PEAK LOADS

Service Area

The Department's 131 square-mile service area consists of the City plus areas extending three to four miles north and south of the city limits. Because of these geographic limitations, the growth of the Department's electric load has resulted exclusively from development within the service area.

Sales to customers located outside the City's boundaries but within the service area represent approximately one-sixth of retail energy sales and revenues. The Department has a franchise agreement with King County that extends until 2007 and franchises with the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila that expire between 2015 and 2018. These six jurisdictions represented over 99 percent of the Department's retail energy sales outside the City in 2002. The Department's service area also includes portions of the cities of Normandy Park and Renton.

Largest Customers

The Department's ten largest customers in 2002, in order of their maximum kW demand, were the Boeing Company, Nucor Steel Company (formerly Birmingham Steel Company), the University of Washington, King County, the United States Government, the Jorgensen Forge Corporation, Saint Gobain Containers, the City of Seattle, Seattle Public Schools, and Unico Properties/Union Square Ltd. These customers accounted for approximately 15.2 percent of retail energy sales and 12.9 percent of retail energy revenues in 2002. The load factors of these customers ranged from 6.7 percent to 77.8 percent, with an average load factor of 40.1 percent.